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RUEHKO/AMEMBASSY TOKYO 8067
RUEHGZ/AMCONSUL GUANGZHOU 9577
RUEHHK/AMCONSUL HONG KONG 6916
RUEHGH/AMCONSUL SHANGHAI 0398
RUEAIIA/CIA WASHDC
RUEHC/DEPT OF AGRICULTURE WASHDC
RHEFDIA/DIA WASHINGTON DC
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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 003321

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SUBJECT: TAIWAN BUSINESS LEADERS ON ECONOMIC POLICY

Classified By: AIT ACTING DIRECTOR ROBERT WANG FOR REASONS 1.5 (b), (d)

11. (C) Summary: AIT Director Young hosted a lunch with business leaders to discuss their views on economic issues. The group complained the leadership of the anti-Chen demonstrations are driven by ulterior motives. They favored the authorities setting the rules to promote a positive business environment, though clearly did want the authorities picking out winners under an 'industrial policy.' The group viewed cross-Straits relations as the key issue for economic policy and wanted more freedom from Taiwan regulation to pursue opportunities in China. One member called for a more thorough and consistent program to develop infrastructure to support the business environment. End Summary.

12. (U) AIT Director Young hosted a lunch September 22 to discuss economic issues with prominent Taiwan business representatives. The guests included Morris Chang, Chairman of Taiwan Semiconductor Manufacturing Corporation, Matthew Miao, Chairman of Mitac, Nita Ing, Chair of Continental Engineering Corporation, Tsai Hong-tu, Chairman of Cathay Pacific Bank, and Yen Ching-chang, Chairman of Fuhwa Securities. AIT attendees included Deputy Director Wang and the Economic and Commercial Chiefs.

Government & Industrial Policy

13. (SBU) The principal topic revolved around interaction between government officials and Taiwan's business community. Miao suggested he missed the good old days 15 years ago when he could confidently take visiting foreign business partners to meet top Taiwan officials and be sure the officials would paint a coherent, supportive vision of how business and government could work together to provide a stable business environment. Chang and Ing took exception to the cozy relationship described by Miao, both saying the current situation where the government sets the rules and stays out of picking winners and losers is a much improved business climate. Chang noted that while it is true the government

picked a winner in semiconductors, it also picked some losers in its implementation of an industrial policy. Ing said the construction sector, for example, is much better off with the government on the sidelines and not trying to dictate policy.

14. (SBU) Yen, from his perspective as a former finance minister, generally defended the government's role in shepherding the financial sector through the Asian Financial crisis in relatively unscathed fashion. Tsai noted that the banking industry is generally highly regulated wherever it is located. Yen and Tsai seemed to be siding with Chang and Ing as they argued the authorities should move ahead with mergers and acquisitions in the financial sector as soon as possible.

Yen said he sharply disagreed with recent statements from senior politicians supporting continued government ownership and control of Mega Financial Holding Co. Tsai saw M&A activity as the only way for his bank (and associated financial services firms) to get big enough to be able to operate regionally. Chang summed up this part of the conversation by saying Taiwan should follow a policy of "active non-intervention" as practiced in Hong Kong in the 1990s.

15. (U) Note: During a Financial Sector seminar hosted by the ROC-USA Business Council on September 25, participants identified 'overbanking', or too many banks, as Taiwan's number one issue in the financial sector. Seminar participants called on the authorities to develop the appropriate environment to allow and promote mergers and acquisitions to move forward in the sector. Dr. Hu Sheng-cheng, moderator for the seminar panel and Chairman of Taiwan's Council of Economic Planning and Development (CEPD), responded by saying the authorities were preparing a

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follow-on plan to the 2nd State Financial Reform Plan and would issue it shortly, possibly as early as Wednesday, September 28.

Infrastructure Wanting

16. (SBU) Miao complained Taiwan has failed to provide and upgrade infrastructure to support Taiwan's modern economy. He lauded Nita Ing for ushering in a new era with the upcoming High Speed Rail line connecting Taipei in the north to Kaohsiung in the south, but bemoaned the lack of progress in other areas like telecommunications and water treatment and supply. On telecoms he advocated for the removal of Chunghwa Telecom's virtual monopoly power in making it difficult for new entrants to the market to get access to the "last mile" of connectivity to homes and businesses. He said he wanted the ability to invite private firms to offer the kind of services he wanted to operate his global company in an efficient manner. Miao did not get a chance to talk about his views on water supply, but Taiwan's water supply issues are well known and there is a bill in the Legislative Yuan calling for major water projects to be constructed.

Cross-Strait

17. (SBU) The table agreed with Chang's contention that the crux of the issue for Taiwan's economic policy is relations across the Strait. While Chang himself noted that probably 90% of Taiwan firms that want to be in China are already there despite existing restrictions, the negative attitude of the authorities on cross-Strait liberalization makes it more challenging than it needs to be to conduct business. (Note: A survey published on September 25 by Taiwan's Electrical Engineering Association reports that 60 percent its members want to expand their existing investments in China. End note.) All of the firms represented at the table want to conduct business, to a greater or lesser extent, across the Strait and believe Taiwan policy is holding companies back from taking advantage of linguistic and cultural ties with China that would make Taiwan a natural gateway for doing business with China.

18. (SBU) Miao suggested Taiwan should be more pragmatic and less dogmatic in its relations with the Mainland. He cited Singapore as an example in that despite separating from Malaysia in 1963, Singapore has always positioned itself to conducting business with Malaysia. The lunch guests seemed to feel Taiwan has missed out on a number of very profitable business opportunities in the Mainland due to Taiwan policy stances. Chang summed it up by saying while Taiwan's cross-Strait policy was not "colossal stupidity" it was certainly "stupidity."

Business View of the Political Demonstrations

19. (C) Away from the group, Chang (and others) were highly critical of the ongoing anti-Chen demonstrations and calls for him to step down. They believed that all of the leaders of the anti-graft and other demonstrations had ulterior motives in pursuing the demonstrations. This group would, of course, oppose any calls for island-wide strikes or efforts to shut down the international airport for the planned celebrations on October 10 for the national day.

WANG